

ACT 95

H.B. NO. 2453

A Bill for an Act Relating to the Capital Loan Program.

Be It Enacted by the Legislature of the State of Hawaii:

SECTION 1. The Hawaii capital loan program provides low interest rate loans to small businesses that face barriers in obtaining commercial financing. In counties with a population of less than 150,000, the borrowers are charged an interest rate of three per cent below the local bank prime rate, or five and one-half per cent a year, whichever is lower. In counties with a population exceeding 150,000, the borrowers are charged an interest rate of one per cent below the local bank prime rate, or seven and one-half per cent a year, whichever is lower. Section 210-6, Hawaii Revised Statutes, limits the adjustment of the local bank prime rate to once every six months. Following the tragic incidents in New York and Virginia on September 11, 2001, the Federal Reserve Board has twice lowered the federal fund rates that are the basis for the local bank prime rate. The legislature finds that the effectiveness of the Hawaii capital loan program is hampered by the ability to adjust the loan interest rate only once every six months. Accordingly, the purpose of this Act is to allow the Hawaii capital loan program's interest rate to be adjusted on the first of each month so that it can better reflect the current rapidly changing financial market.

SECTION 2. Section 210-6, Hawaii Revised Statutes, is amended by amending subsections (b) and (c) to read as follows:

“(b) The department may make loans to business concerns located in a county with a population of less than 150,000; provided that the interest on loans made under this subsection shall bear simple interest at the rate of three per cent below the prime rate or at a rate of five and one-half per cent a year, whichever is lower. For purposes of this subsection, the prime rate shall be determined on ~~[January 1 and July 1 of each year.]~~ the first day of each month, and shall be the rate charged by the two largest banks in the State of Hawaii identified by the department of commerce and consumer affairs. Should there be a difference in rate charged by

the institutions, the lower of the two shall be used. Payments required under loans made under this subsection may be deferred, but no loans made under this subsection shall be forgiven.

(c) Except as may be expressly provided otherwise for loans made under subsection (b), the foregoing powers shall be subject to the following restrictions and limitations:

- (1) No loans shall be granted unless financial assistance is not available to the applicant. The condition may be waived by the director for participation loans or loan guarantees with a private financial institution;
- (2) The amount of the loan or loans to any one applicant at any one time shall in no case exceed a total of \$1,000,000;
- (3) No loan shall be made for a term exceeding twenty years;
- (4) Within counties of a population exceeding 150,000, each loan shall bear simple interest at a rate of one per cent below the prime rate or at a rate of seven and one-half per cent a year, whichever is lower. For purposes of this paragraph, the prime rate shall be determined on ~~[January 1 and July 1 of each year,]~~ the first day of each month, and shall be the rate charged by the two largest banks in the State identified by the department of commerce and consumer affairs. Should there be a difference in rate charged by the institutions, the lower of the two shall be used;
- (5) The commencement date for the repayment of the first installment on the principal of each loan may be deferred by the director, but in no event shall such initial payment be deferred in excess of five years; and
- (6) The payment of interest on the principal of a loan may be deferred by the director, but in no event shall interest payments be deferred in excess of two years from the date of issuance of the loan.’’

SECTION 3. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 4. This Act shall take effect upon its approval.

(Approved May 31, 2002.)